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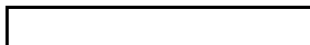
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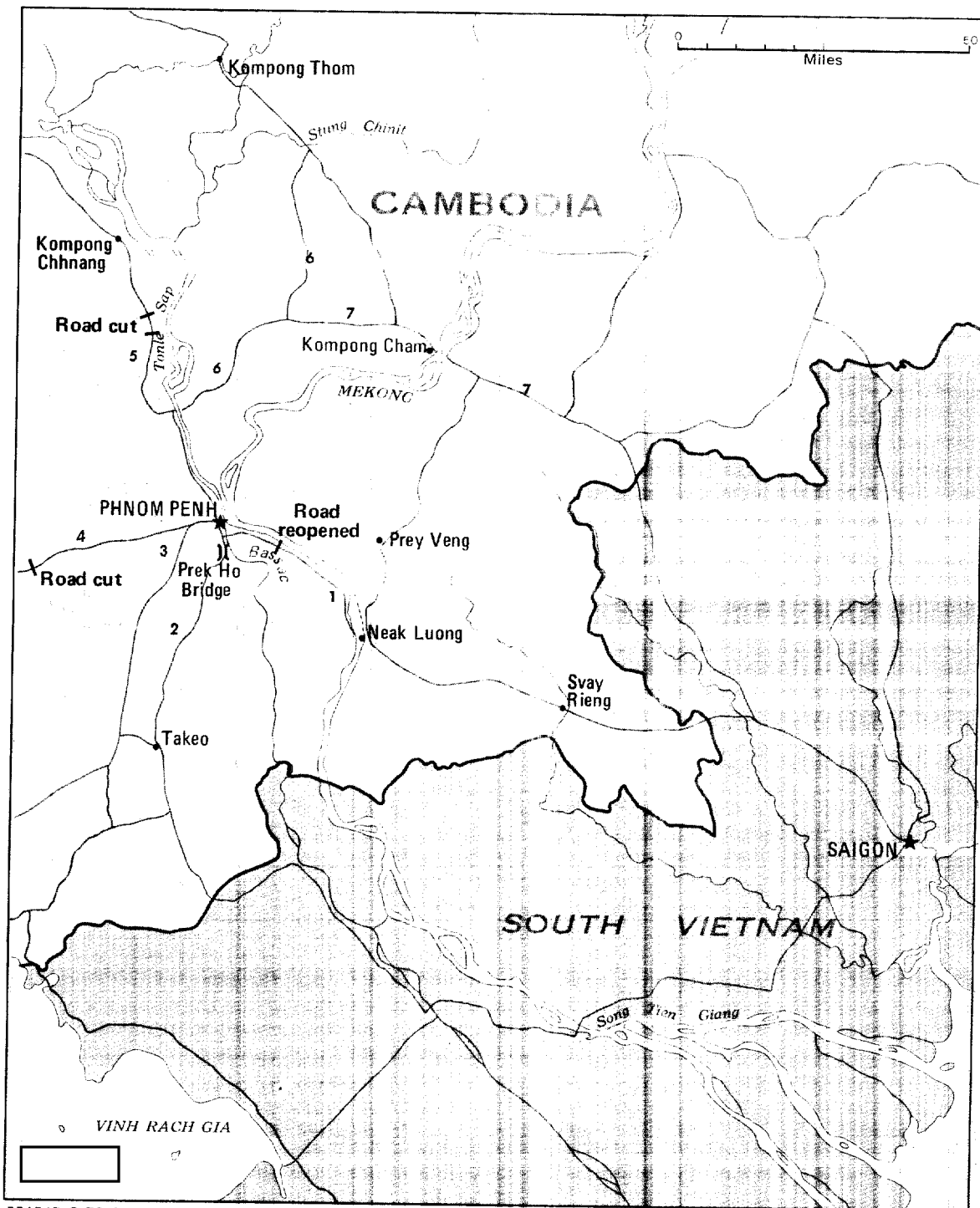
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CAMBODIA: Khmer insurgent attacks during the weekend closed two key highways leading to Phnom Penh, but no significant fighting occurred in the immediate capital area.

Government units began moving to clear Routes 4 and 5, cut about 30 miles from Phnom Penh. The weekend's most intense fighting near Phnom Penh occurred along Route 1, between 12 and 15 miles southeast of the capital, but Cambodian Army units quickly reopened this highway. Insurgent pressures forced government troops to abandon a position ten miles below Phnom Penh on the Bassac River, but there were no attacks against the major defense lines north and south of the city.

Problems of coordination and flooding are apparently hampering insurgent efforts to launch attacks in the capital area.

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Insurgent forces are maintaining heavy pressure on the provincial capital of Kompong Cham, 45 miles northeast of Phnom Penh. Enemy gunners briefly closed the airstrip there on 24 August, and the city's defense perimeter was probed and shelled on 25 and 26 August.

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ICELAND-UK: Both Icelandic and British government spokesmen agree that there is little chance for an early settlement of the fishing dispute.

Icelandic Fisheries Minister Josefsson recently described the situation as hopeless. He said the present cabinet position is to await the Law of the Sea conference in 1974 and hope for a decision favoring Iceland's declared 50-mile limit. Most cabinet members, according to Josefsson, believe further action against British ships would only result in depleting the small Icelandic Coast Guard. Nevertheless, the cutters probably will continue to patrol the disputed area and try to cut the trawls of any fishing boats that stray too far from the protection of British frigates.

In London, a Foreign Ministry official reiterated the original British position that the war ships will remain until Iceland guarantees not to harass the trawlers. In addition, he said that under no circumstances would his government consider making concessions to Iceland simply to improve the atmosphere for US-Icelandic negotiations on base retention. His statement, however, probably does not reflect London's final position on the fishing issue.

Earlier this month, a Foreign Ministry spokesman indicated that London might consider withdrawing all British ships, including the trawlers, if prospects for a negotiated settlement appeared good. He said that the British ambassador in Reykjavik had planned last week to discuss the resumption of negotiations, but canceled talks because of new incidents at sea.

The current stalemate bodes ill for the base negotiations scheduled to begin late next month. The main argument that Icelandic Communists are using against the base is that it has failed to protect Iceland from British "aggression," a line that has strong appeal among the xenophobic, anti-militaristic Icelanders. [REDACTED]

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CHILE: The nation enjoyed a respite from violence yesterday, but the situation remains extremely tense as behind-the-scenes maneuvering continues.

The government, the civilian opposition, and the military apparently are still planning their next moves. President Allende appears to be searching for a political masterstroke to regain the initiative, avert a military move against the government, hold the Popular Unity coalition together, and salvage his political program. The seriousness of the threat against the government seems to be prompting increased cooperation between the Communist and Socialist parties.

General Herman Brady has been picked from the dwindling list of pro-government army generals to replace Mario Sepulveda, who resigned as commander of troops in the Santiago area. There are indications, however, that announcement of a new cabinet may be delayed several days. A key factor in military planning will be what role, if any, the armed forces are offered in the cabinet.

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FOR THE RECORD*

CEMA-EC: CEMA Secretary General Fadeyev is calling on Danish officials in Copenhagen today to initiate contacts on the possibility of CEMA-EC relations. The Danes, who chair EC bodies for the remainder of the year and therefore were singled out for this first approach, have told the US they will make no substantive response to Fadeyev's pitch. [REDACTED]

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Libya: The deadline of 25 August for the major foreign oil companies to agree to 51-percent government participation or be nationalized has passed with no announcement or action by the government. Tripoli's failure to move may reflect nothing more than preoccupation with negotiating the terms of the planned merger with Egypt on 1 September. On 25 August both President Qadhafi and Prime Minister Jallud, Libya's primary negotiator on oil matters, departed unexpectedly for Cairo to consult with President Sadat. [REDACTED]

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**These items were prepared by CIA without consultation with the Departments of State and Defense.*

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